GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3428
ANSWERED ON:07.09.2007
ACCRUAL ACCOUNTING SYSTEM
Senthil Dr. Raman

Will the Minister of FINANCE be pleased to state:

(a) the features and advantages of the accrual system of accounting;

(b) whether the Government has taken any decision to adopt and implement the accrual or double entry system of accounting in place of prevailing cash accounting system in India;

(c) if so, the details in this regard; and

(d) if not, the reasons therefor?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) The Government of India currently follows cash basis of accounting, under which all payments are reflected in the accounts only when they actually occur, and not when they become due.

Compared to the cash based system, the accrual accounting recognizes financial flows at the time the economic value is created, transformed or extinguished, whether or not cash is exchanged at the time. It is different from cash based system in that it records flow of resources. Expenses are recorded when resources (labour, goods and services, and capital) are consumed and income when it is earned i.e. when the goods are sold or the services rendered. The associated cash flows generally follow the event after sometime and may or may not take place during the same accounting period. Thus, in addition to cash flows, unpaid consumptions (payable) and unrealized incomes(receivables) are also recorded. Resources acquired but not fully consumed during an accounting period are treated as assets (inventory and fixed assets). Payments made for acquisition of inventory are included in the operating cost for the period in which it is consumed. Payment made for acquisition of physical assets, that future service potential, are amortised over the entire useful life of the asset by charging depreciation.

(b) The Government has accepted in principle the recommendation of the XII Finance Commission that `Central Government should gradually move towards accrual basis of accounting`.

The Office of Controller General of Accounts Ministry of Finance has undertaken Pilot Project in Ministries of Urban Development and Ministry of Health and Family Welfare, to examine the feasibility of transition to accrual system of accounting

(c) The Pilot Project in the Ministry of Urban Development is being implemented in 4 (four) divisions of the CPWD, while the Project in the Ministry of Health and Family Welfare is being implemented in one hospital.

(d) Does not apply.